

SCERA

Sonoma County Employees' Retirement Association 2021



**(A Pension Trust Fund for The County of Sonoma, Santa Rosa, California)
Popular Annual Financial Report For the Year Ended December 31, 2021**

MESSAGE FROM SCERA'S CHIEF EXECUTIVE OFFICER

I am pleased to present this summary of the Annual Financial Report for the year ending December 31, 2021. The Annual Comprehensive Financial Report (ACFR) provides a more complete overview of Sonoma County Employees' Retirement Association's (SCERA) financial position and operation results and is available at the SCERA office or on-line at www.scretire.org.

Actuarial Funding Status

The Board of Retirement (Board) is responsible for overseeing the actuarial objectives for SCERA (the Plan). The Plan's funding objective is to meet benefit promises by achieving long-term full funding of the cost of benefits, seeking reasonable and equitable allocation of those costs, minimizing volatility of contributions where possible and consistent with other policy goals, and obtaining optimum returns consistent with the assumption of prudent risk. Pursuant to provisions in the County Employees Retirement Law of 1937, SCERA engages an independent actuarial firm to perform actuarial valuations of the System annually. As of this latest actuarial valuation, the actuarial funding status (the ratio of Valuation Value of Assets to Actuarial Accrued Liabilities) is 92.9%.

Investments

2021 was the second year of the COVID-19 pandemic and, due to social distancing guidelines, the Board continued to meet, as it did in most of 2020, via video conference. Similarly, the investment team continued to carry out its responsibilities while observing social distancing guidelines. Due diligence on the Plan's investment managers is performed on an ongoing basis by our investment consultant, Aon, supplemented by SCERA's investment staff. Investment staff normally meets with each of the Plan's managers on-site once every three years. Since the outbreak of the pandemic staff have conducted its due diligence review meetings by way of video conference. In 2021, we held six such meetings.

The Board received an educational presentation in 2021 from Aon on their fiduciary responsibilities and its application to issues such as ESG (Environmental, Social & Governance) investing. In a related presentation, Aon reviewed the appropriate way to include ESG issues in the investment process. Aon's new due diligence practice includes evaluation of the manager's ability to assess the impact of ESG issues on the expected risk and return of investment opportunities. The Board also reviewed, as we do every two to three years, the Plan's experience with active management versus the passive alternative by asset class. This review helps shape future allocations between active and passive alternatives within asset classes. Last, the Plan's consultant reviewed the structure of the Plan's equity portfolio with the result being that the Board confirmed the appropriateness of the existing structure, but did modestly increase the weight of its highest conviction equity managers; Arrowstreet, Jacobs Levy and Dodge & Cox.

In recent years, SCERA's investment staff have been increasingly concerned regarding the growing weight to China in the most common non-US and global equity indices. Never before have these benchmarks had such a large exposure to a country with a poor Rule of Law (ROL). SCERA staff orchestrated a series of discussions in 2020 and early 2021 including multiple presentations by experts on investing in the Chinese market. Staff also identified and presented on the ROL Index which is published by the World Justice Project, a spinoff from the American Bar Association. In January 2021, the Board elected to adopt a ROL investment guideline which was implemented in March 2021.

The ROL guideline eliminates markets that score poorly on the ROL Index, the most notable being China (including Hong Kong) and Russia. Practically speaking, this guideline means we have eliminated more than half, but not all, of our exposure to these poor ROL countries. Investments where the Plan participates in commingled vehicles will continue to be exposed as we have no control over the investment guidelines pertaining to the specific investment vehicle. The Board views the ROL investment guideline as a long-term risk mitigation issue and not a market timing effort. They are aware that China is a very large market, that they have an economy that has been growing quite rapidly and that it is home to a number of important tech firms. However, the Board also believes it is prudent to avoid investing in countries where the claim on our assets, or the capital generated by those assets, is tenuous and there is little protection provided by the legal system.

Investments (continued)

For calendar year 2021, the Plan's investment portfolio returned 18.6% gross-of-fees. With annual investment management fees of approximately 0.5%, this equates to a return of 18.1% net-of-fees, a return considerably above the current Actuarial Assumed Rate-of-Return (ROR) of 7.0%.

Four of the last five calendar years have produced returns greater than the assumed ROR, which more than offset the negative return from 2018, producing an above-par five-year gross-of-fee return of 11.2%. As individual calendar year returns can be volatile, progress is monitored by using "smoothed" five-year returns rather than focusing on the more volatile nature of annual returns. SCERA's performance over twenty-five years is 7.8% gross-of-fees, which on an after-fee basis is broadly in-line with long-term expectations. Given the long-term nature of the Plan's liabilities, this long-term return is arguably the most relevant when evaluating the financial performance of the Plan's assets.

Operations

Personnel changes in our small staff have been at the forefront during the year, with the retirement of the Assistant CEO, the Retiree and Financial Services Manager and the announced 2022 retirement of the Senior Investment Officer. The Board approved a combination of positions to create an Assistant CEO/Chief Legal Counsel position which was successfully recruited. The new position was filled in early 2022. We also successfully recruited for a Finance and Retiree Manager and will begin recruitment for an Investment Officer in mid-2022.

SCERA received its Actuarial Experience Study and adopted new assumptions in several areas, with the lowering of the investment return assumption to 6.75%, the lowering of the inflation assumption to 2.50%, and the lowering of the annual salary growth assumption to 3.0%. Among other assumption changes, SCERA adopted a benefit-weighted mortality scale to be used in conjunction with the generational mortality scales adopted with the last Experience Study. The benefit-weighted scale correlates mortality improvements with benefit amounts being paid under the assumption that the more benefit a retiree or beneficiary is receiving the more likely that retiree or beneficiary will receive medical care and therefore potentially live longer.

The Board conducted its public meetings in a hybrid manner in accordance with the California State of Emergency declared on March 4, 2020 and Resolution #156 adopted by the Board. The order allows Trustees to appear by teleconference with relaxed Brown Act requirements regarding the inclusion of the address they are attending from listed on the agenda, the necessity for that location to be ADA compliant and the posting of the agenda in a public place near the location they are attending from at least 72 hours prior to the meeting.

Retirement Board

2021 saw the reelection of Brian Williams to the Safety Member position for the term beginning January 1, 2022, and the election of Amos Eaton to the General Member position, replacing Trustee Christel Querijero mid-term for the term beginning January 1, 2021. Robert Williamson was reappointed to the Board by the Sonoma County Board of Supervisors for the term beginning January 1, 2022 and Sonoma County Board of Supervisor Member Chris Coursey was appointed for the term beginning January 1, 2022. We are very pleased with the election and appointment of these Trustees and greatly appreciate the continuity of our Board. The Board officers consist of Brian Williams, Chair, and Robert Williamson, Vice Chair, and our Investment Committee officers consist of Greg Jahn, Chair, and Erick Roeser, Vice Chair.

Popular Annual Financial Reporting Award

SCERA received the GFOA's Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the fiscal year ended December 31, 2020. The PAFR is sent to all SCERA members and includes highlights of the annual activity. This was the seventeenth year the PAFR was submitted to the GFOA and we are very pleased that the PAFR again received the Certificate of Achievement.

Respectfully submitted,

Julie Wyne
Chief Executive Officer

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2021

Brian Williams, Chair
Elected by Safety Members.
Present term expires
December 31, 2021

Travis Balzarini
Elected by General Members.
Present term expires
December 31, 2022

Amos Eaton
Elected by General Members.
Present term expires
December 31, 2023

Susan Gorin
Appointed by Board of Supervisors.
Present term expires
December 31, 2021

Greg Jahn
Appointed by Board of Supervisors.
Present term expires
December 31, 2023

Erick Roeser
Auditor/Controller/
Treasurer/Tax Collector
Ex-Officio Trustee

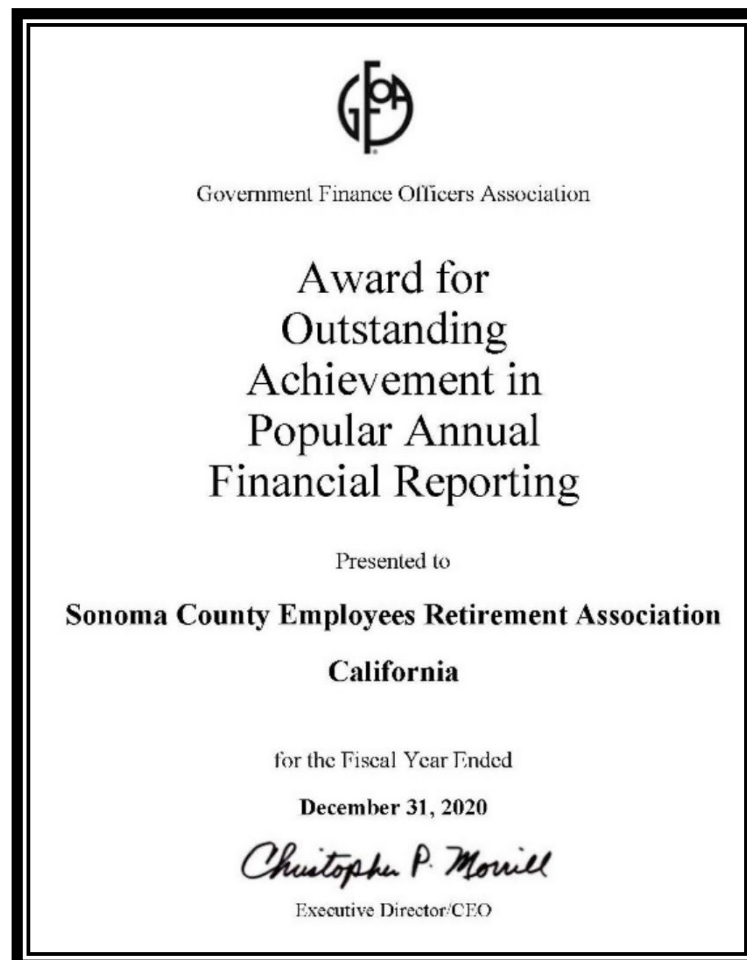
Neil Baker, Alternate
Elected by Retiree Members.
Present term expires
December 31, 2023

Joe Tambe
Appointed by Board of Supervisors.
Present term expires
December 31, 2023

Tim Tuscany
Elected by Retiree Members.
Present term expires
December 31, 2023

Robert Williamson
Appointed by Board of Supervisors.
Present term expires
December 31, 2022

GFOA POPULAR ANNUAL FINANCIAL REPORTING AWARD



FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position report SCERA's net position restricted for benefits and is one way to measure the plan's financial position. Over time, increases and decreases in SCERA's net position are indicators of whether its financial position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring SCERA's overall financial position. SCERA's Net Position as of December 31, 2021 is \$3,521 million. This amount reflects an increase of 15%, primarily as a result of a net investment gain of \$522 million.

Changes in Fiduciary Net Position

For the Year Ended December 31,

(Dollars in Millions)	2021	2020	Increase (Decrease) Amount	% Change
Additions				
Contributions	\$ 124	\$ 125	\$ (1)	(1)%
Net Investment Income/(Loss)	522	225	297	132%
Total Additions	<u>646</u>	<u>350</u>	<u>296</u>	<u>85%</u>
Deductions				
Pension Benefits and Refunds of Contributions	196	190	6	3%
Administrative and Other Expenses	3	3	-	-%
Total Deductions	<u>199</u>	<u>193</u>	<u>6</u>	<u>3%</u>
Change in Fiduciary Net Position	<u>447</u>	<u>157</u>	<u>290</u>	<u>185%</u>
Fiduciary Net Position, Beginning of Year	<u>3,074</u>	<u>2,917</u>	<u>157</u>	<u>5%</u>
Fiduciary Net Position, End of Year	<u>\$ 3,521</u>	<u>\$ 3,074</u>	<u>\$ 447</u>	<u>15%</u>

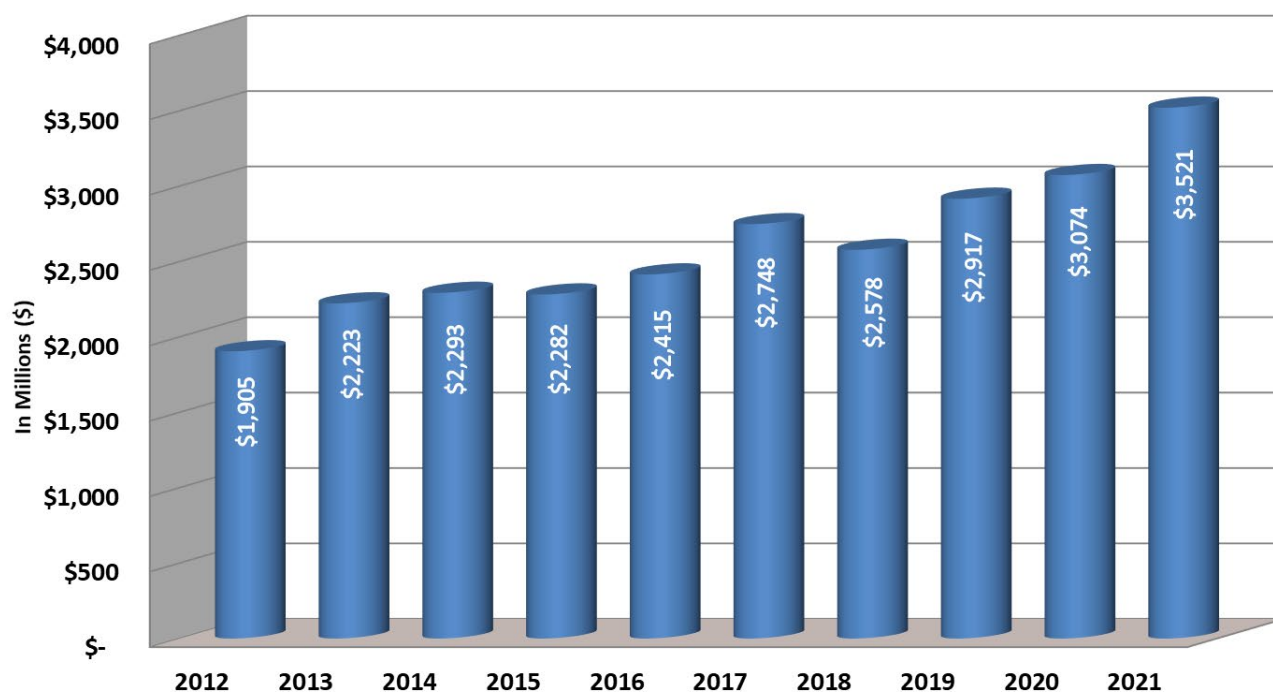
Summary of Fiduciary Net Position

As of December 31,

(Dollars in Millions)	2021	2020	Increase (Decrease) Amount	% Change
Current and Other Assets	\$ 338	\$ 300	\$ 38	13%
Investments	3,427	3,020	407	13%
Capital Assets, net	<u>2</u>	<u>2</u>	<u>-</u>	<u>-%</u>
Total Assets	<u>3,767</u>	<u>3,322</u>	<u>445</u>	<u>13%</u>
Accounts Payable and Other Liabilities	<u>246</u>	<u>248</u>	<u>(2)</u>	<u>(1)%</u>
Total Liabilities	<u>246</u>	<u>248</u>	<u>(2)</u>	<u>(1)%</u>
Fiduciary Net Position Restricted for Pension Benefits	<u>\$ 3,521</u>	<u>\$ 3,074</u>	<u>\$ 447</u>	<u>15%</u>

FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS (continued)*(All \$ in Millions)*

Fiscal Year Ending 12/31	Total Fund Net Position	Increase (Decrease) in Net Position
2021	\$ 3,521	\$ 447
2020	3,074	157
2019	2,917	339
2018	2,578	(170)
2017	2,748	333
2016	2,415	133
2015	2,282	(11)
2014	2,293	70
2013	2,223	318
2012	1,905	195

SCERA Fiduciary Net Position Restricted for Pension Benefits

NET PENSION LIABILITY/(ASSET)

The net pension liability/(asset) is measured as the total pension liability less the amount of the pension plan's fiduciary net position. The net pension liability/(asset) is an accounting measurement calculated under the guidance of GASB Number 67 for financial statement report purposes and reflects the market value basis. The components of net pension liability/(asset) of participating employers as of December 31, 2021 are as follows:

(Dollars in Millions)	2021	2020	2019	2018	2017
Total Pension Liability	\$ 3,460	\$ 3,264	\$ 3,143	\$ 3,072	\$ 2,917
Less: Fiduciary Net Position	<u>3,521</u>	<u>3,074</u>	<u>2,917</u>	<u>2,578</u>	<u>2,748</u>
Net Pension Liability/(Asset)	\$ (61)	\$ 191	\$ 226	\$ 494	\$ 169
Fiduciary Net Position as a Percentage of Total Pension Liability	101.8%	94.2%	92.8%	83.9%	94.2%

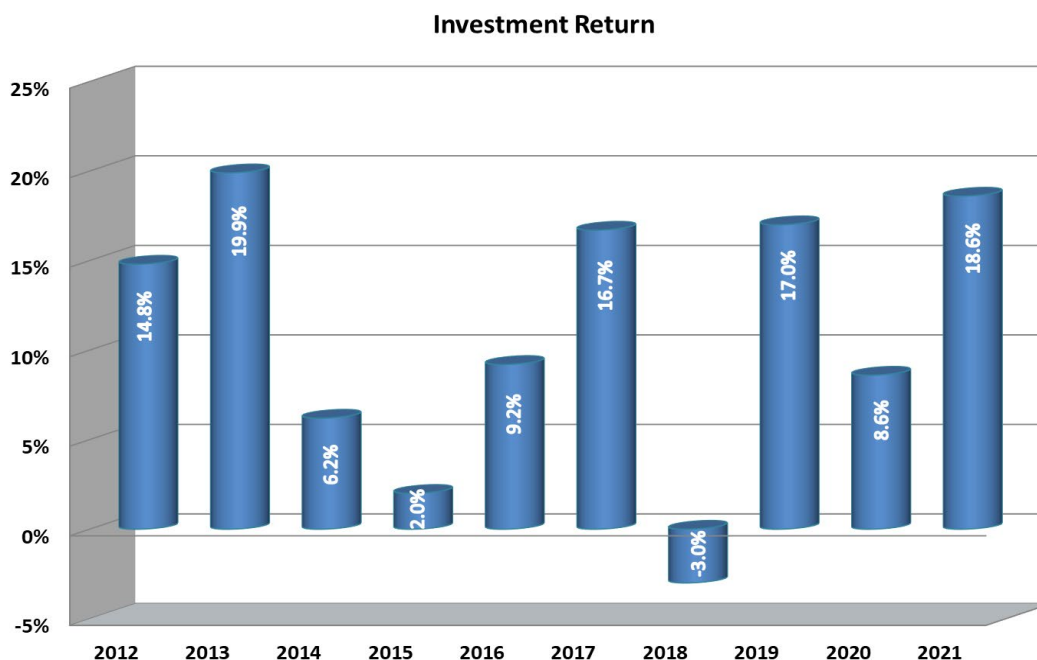
FUNDED RATIO

SCERA's funding objective is to meet benefit promises by achieving long-term funding of the cost of benefits, seeking reasonable and equitable allocation of those costs, minimizing volatility of contributions where possible and consistent with other policy goals, and obtaining optimum returns consistent with the assumption of prudent risk. As of the December 31, 2021 actuarial valuation, the funded status (funded ratio of Valuation Value Assets to Actuarial Accrued Liabilities) is 92.9%.

Actuarial Valuation Date	Funded Ratio
12/31/21	92.9%
12/31/20	91.3%
12/31/19	89.4%
12/31/18	86.8%
12/31/17	87.7%

INVESTMENT RETURNS

This chart represents the investment return (gross of investment fees) over 10 years on plan assets.

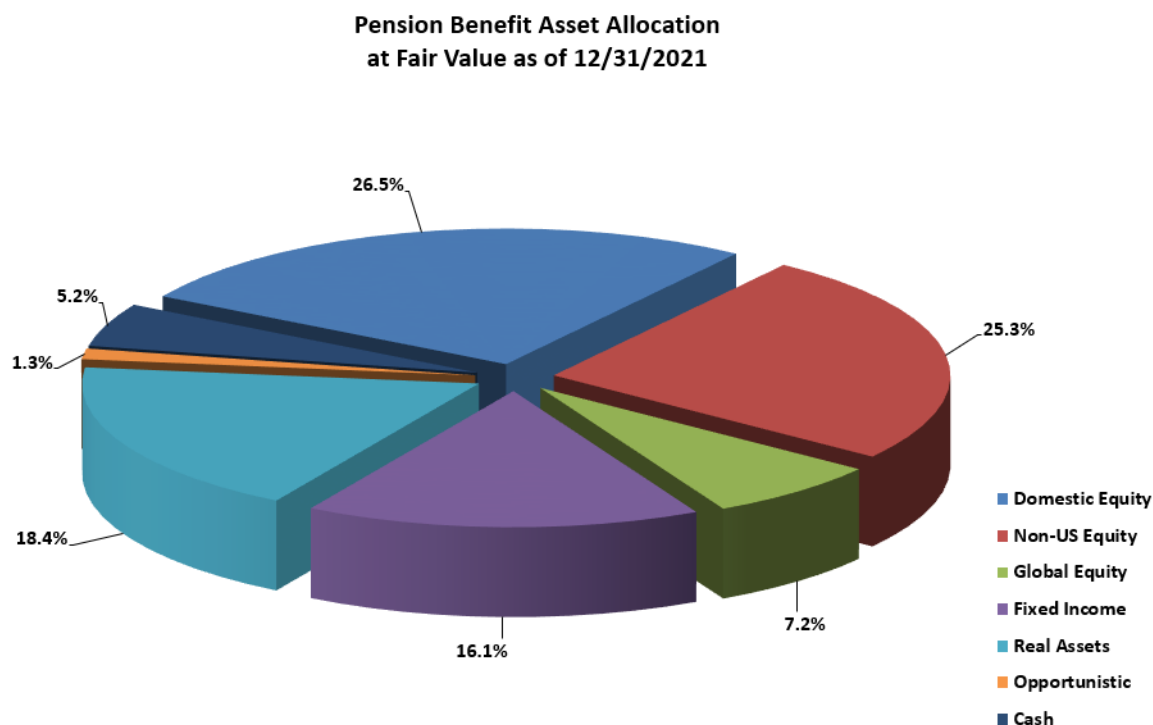


ASSET ALLOCATION

(All \$ in Millions) Fiscal Year Ended December 31, 2021

Investment	Fair Value	Asset Allocation %	2021 Return	3-Year Return	5-Year Return
Fixed Income	\$ 582.7	16.1%	0.6%	5.5%	4.5%
Benchmark: BB US Aggregate			(1.5)%	4.8%	3.6%
Real Assets	664.6	18.4%	20.4%	8.9%	8.4%
Benchmark: NCREIF ODCE Index			14.6%	7.1%	7.5%
Domestic Equity	958.6	26.5%	34.5%	24.8%	17.7%
Benchmark: Russell 3000			25.7%	25.8%	18.0%
Non-US Equity	915.2	25.3%	18.0%	15.6%	11.4%
Benchmark: MSCI AC World ex-US IMI			8.5%	13.6%	9.8%
Global Equity	260.3	7.2%	18.75%	15.21%	9.9%
Benchmark: MSCI Global Equity Blend			18.50%	20.5%	12.4%
Opportunistic	45.8	1.3%	21.63%	9.90%	10.45%
Cash & Overlays	186.7	5.2%	0%	0.8%	1.0%
Total SCERA Assets	<u>\$ 3,613.9</u>	<u>100%</u>	18.6%	14.6%	11.2%
Benchmark: SCERA Policy Index			13.5%	15.0%	11.2%

The above chart shows the fair value at fiscal year end, the actual percent of each asset type as a percentage of the entire portfolio and the investment returns for 1-year, 3-year and 5-year periods. The returns are shown before investment fees and administrative expenses. Benchmarks are market return comparisons for investments similar to the SCERA investment portfolio. The SCERA Policy Index provides an overall market return measure for the SCERA fund and represents the weighted average market return for SCERA investment classes.



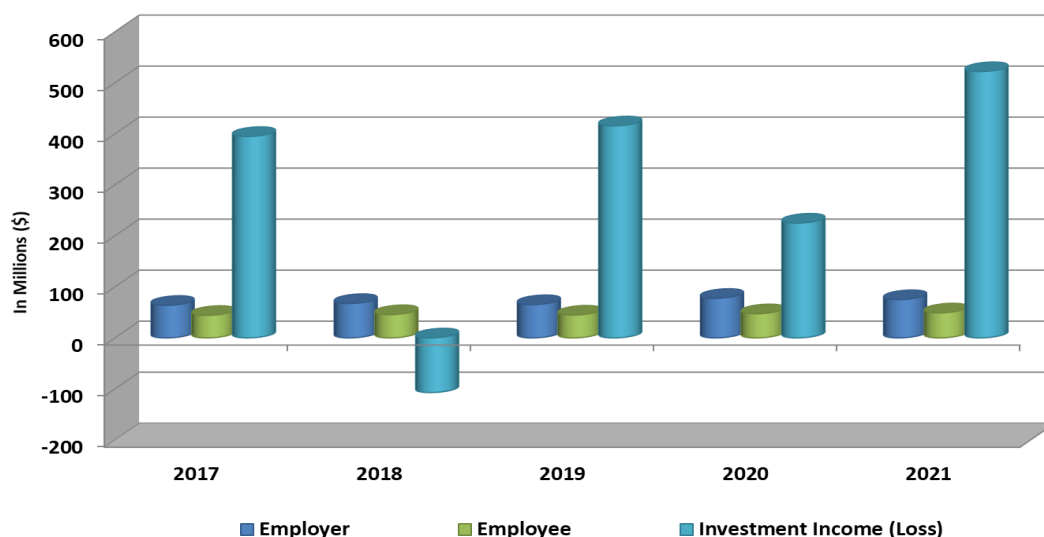
FUND REVENUE

(Dollars in Millions)

The primary sources to finance the benefits SCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. The income sources for the fiscal year ended December 31, 2021 totaled \$646.2 million. Good investment income in 2021 was the result of strong equity, fixed income and real asset returns.

Fiscal Year Ending 12/31	Employer Pension Contributions	Employee Pension Contributions	Net Investment Income (Loss)	Total
2021	\$ 75.0	\$ 49.1	\$ 522.1	\$ 646.2
2020	77.5	47.4	225.0	349.9
2019	65.1	44.7	415.6	525.4
2018	67.4	45.6	(107.1)	5.9
2017	63.8	44.2	394.9	502.9

SCERA Revenue by Type



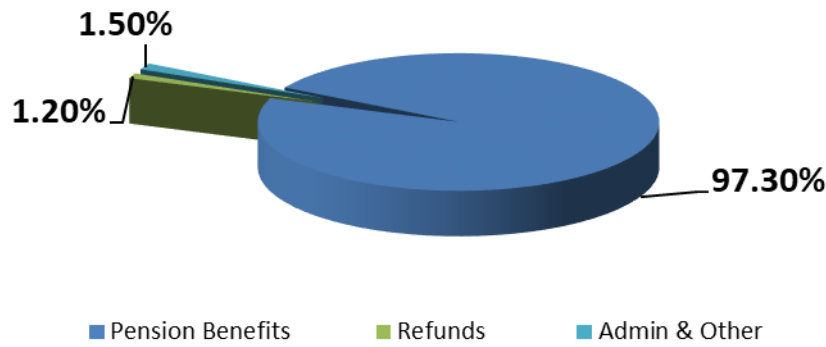
**Net Investment Income/(Loss) is the total interest and dividends earned by all investments as well as the change in fair value of all investments, less investment fees.*

FUND EXPENSES

(All \$ in Thousands)

The primary uses of assets are the payment of pension benefits to retirees and their beneficiaries, refund of contributions to former employees, and the cost of administering the system. Pension Benefits and refunds decreased 3% in 2021 due to a decreasing number of contribution withdrawals.

Fiscal Year Ending 12/31	Pension Benefits	Refunds	Admin & Other Expense	Total
2021	\$ 193.1	\$ 2.4	\$ 3.0	\$ 198.5
2020	186.0	4.1	3.0	193.1
2019	179.4	3.3	3.6	186.3
2018	170.4	2.2	3.6	176.2
2017	163.0	3.0	3.7	169.7

FUND EXPENSES (continued)*(All \$ in Thousands)***SCERA Expenses by Type****HISTORICAL MEMBERSHIP**

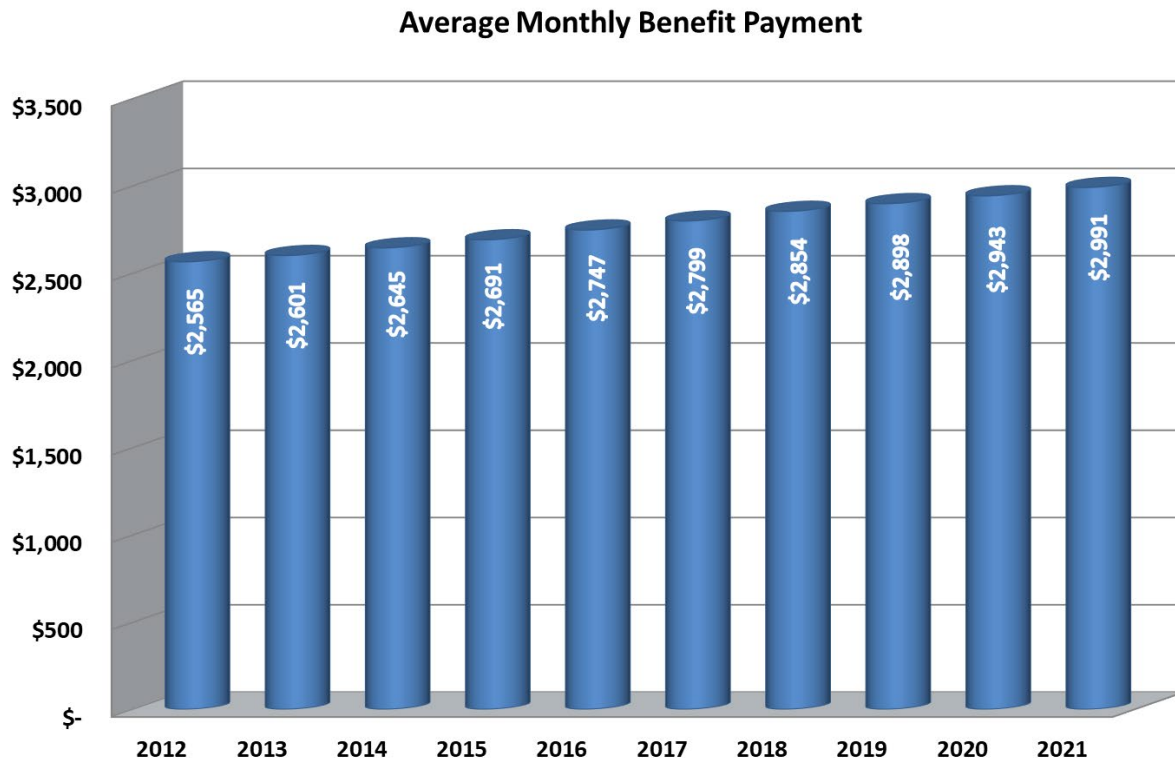
Membership includes the total number of active employees paying into the plan; inactive members with contributions still in the plan and the total number of retired members and beneficiaries drawing monthly pension benefits.

Fiscal Year Ending 12/31	Active & Deferred Members	Retired Members & Beneficiaries	Total Members	Average Annual Retiree Benefit Received
2021	5,635	5,478	11,113	\$ 35,892
2020	5,535	5,347	10,882	35,315
2019	5,435	5,250	10,685	34,781
2018	5,316	5,096	10,412	34,247
2017	5,291	4,936	10,227	33,591

Average Annual Benefit is the average benefit received including the basic retirement pension plus COLAs.

AVERAGE BENEFIT PAYMENTS

The chart below is a broad representation of average benefits paid monthly over 10 years to retirees and survivors. Both general and safety member figures are combined in this calculation. The chart includes all members who have retired through December 31, 2021.



ISSUED BY

Julie Wyne, *Chief Executive Officer*

Cristina Hess, *Assistant Chief Executive Officer*

Cheryl Enold, CPA, *Finance and Retiree Services Manager*

James Failor, *Chief Investment Officer*

The financial data in the PAFR is derived from the more detailed ACFR.

www.scretire.org.

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